

PCM COMMUNITY SCHOOL DISTRICT  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2007

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PCM Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education (Before September 2006 Election)</b>		
Michael Naber	President	2006
Fred Peasley	Vice President	2007
John Woestman	Board Member	2006
Tom Timmons	Board Member	2006
Mike Schippers	Board Member	2007
Krista Von Bank	Board Member	2008
Suzanne Morecock	Board Member	2008
<b>Board of Education (After September 2006 Election)</b>		
John Woestman	President	2009
Mike Schippers	Vice President	2007
Fred Peasley	Vice President (Resigned)	2007
Michele Wilkie	Board Member	2009
Krista Von Bank	Board Member	2008
Suzanne Morecock	Board Member	2008
Tim McCarthy	Board Member	2009
Lori Storm	Board Member (Appointed)	2007
<b>School Officials</b>		
Kirk Nelson	Superintendent	2007
Tami Thomas	District Secretary/Treasurer and Business Manager	2007
Peter Pashler	Attorney	2007

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**Certified Public Accountants**  
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Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the  
PCM Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of PCM Community School District, Prairie City Iowa, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the PCM Community School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated January 26, 2008 on our consideration of the PCM Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 36 through 37 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise PCM Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for three years ended June 30, 2006 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
NOLTE, CORNMAN & JOHNSON, P.C.

January 26, 2008

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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PCM Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2007 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$7,568,534 in fiscal 2006 to \$7,959,545 in fiscal 2007, while General Fund expenditures increased from \$8,112,532 in fiscal 2006 to \$8,305,591 in fiscal 2007. This resulted in a decrease in the District's General Fund balance from \$460,086 in fiscal 2006 to a balance of \$114,040 in fiscal 2007, a 75% decrease from the prior year.
- The increase in General Fund revenues was attributable to increases in state and federal revenues in fiscal 2007. The increase in expenditures was due primarily to an increase in instructional expenses during fiscal 2007.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of PCM Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report PCM Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which PCM Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

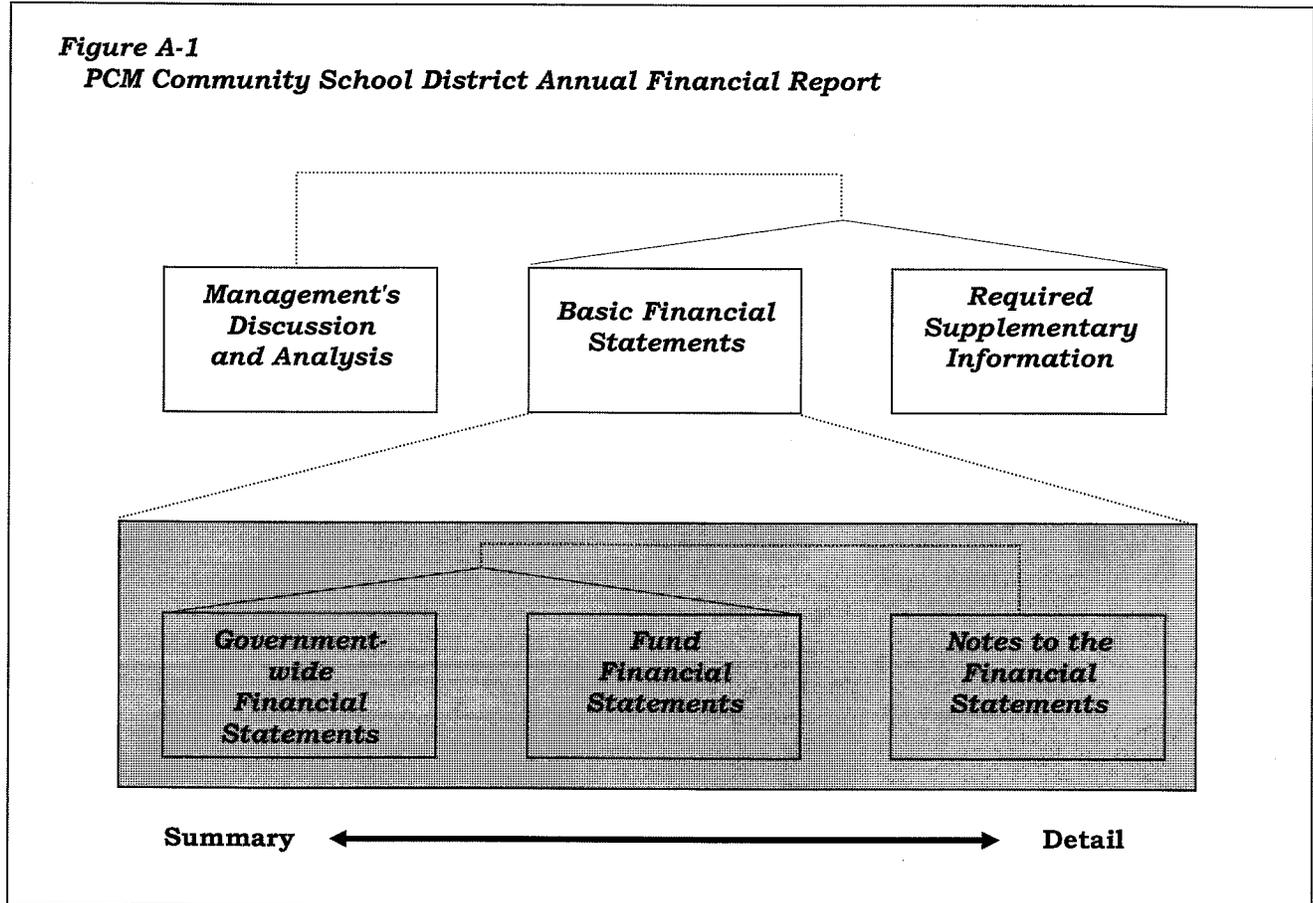


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

<b>Figure A-2 Major Features of the Government-Wide and Fund Financial Statements</b>				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

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## **REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES**

### **Government-wide Financial Statements**

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Capital Projects and Debt Service Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

2) *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. This fund is the Private-Purpose Trust Fund.

a. Private-Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2007 compared to June 30, 2006.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Current and other assets	\$ 4,891,823	5,187,033	55,977	18,768	4,947,800	5,205,801	-4.96%
Capital assets	4,724,861	3,830,068	29,445	35,900	4,754,306	3,865,968	22.98%
Total assets	9,616,684	9,017,101	85,422	54,668	9,702,106	9,071,769	6.95%
Long-term obligations	1,425,357	1,538,806	0	0	1,425,357	1,538,806	-7.37%
Other liabilities	3,365,905	3,057,173	31,146	32,020	3,397,051	3,089,193	9.97%
Total liabilities	4,791,262	4,595,979	31,146	32,020	4,822,408	4,627,999	4.20%
Net assets:							
Invested in capital assets, net of related debt	3,624,861	2,792,479	29,445	35,900	3,654,306	2,828,379	29.20%
Restricted	1,122,640	1,115,222	0	0	1,122,640	1,115,222	0.67%
Unrestricted	77,921	513,421	24,831	(13,252)	102,752	500,169	-79.46%
Total net assets	\$ 4,825,422	4,421,122	54,276	22,648	4,879,698	4,443,770	9.81%

The District's combined net assets increased by 9.81%, or \$435,928 over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$7,418 or 0.67% over the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day –to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased approximately \$397,417, or 79.46%.

Figure A-4 shows the changes in net assets for the year ended June 30, 2007 compared to the year ended June 30, 2006.

Figure A-4  
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Revenues:							
Program revenues:							
Charges for services	\$ 632,468	715,241	377,309	327,667	1,009,777	1,042,908	-3.18%
Operating grants and contributions and restricted interest	1,046,806	910,379	143,057	125,652	1,189,863	1,036,031	14.85%
Capital grants and contributions and restricted interest	24,967	0	0	0	24,967	0	100.00%
General revenues:							
Local tax	3,704,228	3,486,870	0	0	3,704,228	3,486,870	6.23%
Unrestricted state grants	3,988,716	3,792,918	0	0	3,988,716	3,792,918	5.16%
Other	43,777	20,759	309	206	44,086	20,965	110.28%
Total revenues	9,440,962	8,926,167	520,675	453,525	9,961,637	9,379,692	6.20%
Program expenses:							
Governmental activities:							
Instructional	5,989,737	5,974,488	0	0	5,989,737	5,974,488	0.26%
Support services	2,526,352	2,518,753	0	0	2,526,352	2,518,753	0.30%
Non-instructional programs	0	0	489,047	480,381	489,047	480,381	1.80%
Other expenses	516,835	841,989	0	0	516,835	841,989	-38.62%
Total expenses	9,032,924	9,335,230	489,047	480,381	9,521,971	9,815,611	-2.99%
Excess(deficiency) of revenues over(under) expenses	408,038	(409,063)	31,628	(26,856)	439,666	(435,919)	-200.86%
Other financing uses, net	(3,738)	0	0	0	(3,738)	0	-100.00%
Change in net assets	404,300	(409,063)	31,628	(26,856)	435,928	(435,919)	200.00%
Net assets beginning of year	4,421,122	4,830,185	22,648	49,504	4,443,770	4,879,689	-8.93%
Net assets end of year	\$ 4,825,422	4,421,122	54,276	22,648	4,879,698	4,443,770	9.81%

In fiscal 2007, property tax and unrestricted state grants account for 81.48% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.94% of the revenue from business type activities.

The District's total revenues were approximately \$10.0 million of which \$9.4 million was for governmental activities and less than \$0.6 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 6.20% increase in revenues and a 2.99% decrease in expenses. Unrestricted state grants increased \$195,798 and local tax increased \$217,358 to fund increases in expenditures. The increases in expenses related to increases in the negotiated salary and benefits as well as increases in expenses funded by grants received by the District.

### Governmental Activities

Revenues for governmental activities were \$9,440,962 and expenses were \$9,032,924. In a difficult budget year, the District was able to balance the budget by expending monies from the fund balances.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, and other expenses.

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2007	2006	Change 2006-07	2007	2006	Change 2006-07
Instruction	\$ 5,989,737	5,974,488	0.26%	4,620,962	4,686,949	-1.41%
Support services	2,526,352	2,518,753	0.30%	2,521,390	2,514,006	0.29%
Other expenses	516,835	841,989	-38.62%	186,331	508,655	-63.37%
Totals	<u>\$ 9,032,924</u>	<u>9,335,230</u>	<u>-3.24%</u>	<u>7,328,683</u>	<u>7,709,610</u>	<u>-4.94%</u>

- The cost financed by users of the District's programs was \$632,468.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,046,806.
- The net cost of governmental activities was financed with \$3,704,228 in local tax, \$3,988,716 in unrestricted state grants, and \$43,777 in other income.

### Business-Type Activities

Revenues of the District's business-type activities were \$520,675 and expenses were \$489,047. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

## INDIVIDUAL FUND ANALYSIS

As previously noted, the PCM Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$1,335,697, compared to last year's ending fund balances of \$1,969,059.

### Governmental Fund Highlights

- The District's decreasing General Fund financial position is the product of many factors. Increase in the state revenues during the year resulted in an increase in revenues. However, the increase in revenues was more than offset by the District's increase in General Fund expenditures ensuring the decrease in the financial position of the District.

- The Physical Plant and Equipment Levy (PPEL) fund balance increased from \$169,097 to \$194,737, due to revenues surpassing expenditures during fiscal 2007.
- The Capital Projects fund balance decreased from \$852,324 to \$550,115 due to the increased expenditures during fiscal 2007 as compared to fiscal 2006.
- The Debt Service fund balance increased from \$116,702 to \$119,732, due to increased revenues and reduced expenditures for the year.

**Proprietary Fund Highlights**

The School Nutrition Fund net assets increased from \$22,648 at June 30, 2006 to \$54,276 at June 30, 2007, representing an increase of approximately 140%.

**BUDGETARY HIGHLIGHTS**

The District’s revenues were \$252,759 more than budgeted revenues, a variance of 2.6%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District’s budget for the General Fund. It is the District’s practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District’s certified budget should always exceed actual expenditures for the year. Unfortunately, during fiscal 2007, the District exceeded budgeted expenditures in the instructional and support services functions.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At June 30, 2007, the District had invested \$4.8 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 18.64% from last year. More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year was \$249,877.

The original cost of the District’s capital assets was \$9,003,955. Governmental funds account for \$8,757,096 with \$246,859 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the buildings category. The District’s buildings totaled \$3,446,805 at June 30, 2006, compared to \$4,345,083 reported at June 30, 2007. This increase resulted from completion of the environmental center and office building additions projects.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Land	\$ 156,462	156,462	0	0	156,462	156,462	0.00%
Buildings	4,345,083	3,446,805	0	0	4,345,083	3,446,805	20.67%
Machinery and equipment	223,316	226,801	29,445	35,900	252,761	262,701	-3.93%
Total	\$ 4,724,861	3,830,068	29,445	35,900	4,754,306	3,867,974	18.64%

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## Long-Term Debt

At June 30, 2007, the District had long-term debt outstanding of \$1,425,357 in general obligation bonds, revenue bonds and early retirement. This represents a decrease of approximately 7.4% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 7 to the financial statements.

The District had total outstanding general obligation bonds payable of \$975,000 at June 30, 2007, for the Prairie City Elementary.

The District had revenue bonds payable of \$125,000 at June 30, 2007, for the nature and education center that was completed during fiscal 2007.

The District has no real estate contract payable due to the District deciding to pay off the note one year early.

The District also had total outstanding early retirement payable of \$325,357 at June 30, 2007.

Figure A-7  
Outstanding Long-Term Obligations

	Total School District		Total Change
	2007	2006	
General obligation bonds	\$ 975,000	1,150,000	-15.2%
Revenue bonds	125,000	150,000	-16.7%
Real estate contract	0	59,600	-100.0%
Early retirement	325,357	179,206	81.6%
Total	\$ 1,425,357	1,538,806	-7.4%

## ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Increases in health insurance premiums, along with salaries and benefits for the employees is always a concern for the District.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.
- Low allowable growth over several years and enrollment fluctuations is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Development along Highway 163 has the potential for new economic opportunities, which could positively affect the District in the future.
- Budget cuts of \$400,000 for fiscal 2008 as well as renewal of the Instructional Support Levy will help to maintain District health.
- The District raised prices for meals served by food service for fiscal 2008. This should help to enable the School Nutrition Fund to be self sustaining.

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## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kirk Nelson, Superintendent, PCM Community School District, P.O. Box 490, Prairie City, Iowa, 50228.

BASIC FINANCIAL STATEMENTS

PCM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2007

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and pooled investments:			
ISCAP(Note 5)	\$ 361,428	0	361,428
Other	1,057,120	32,906	1,090,026
Receivables:			
Property tax:			
Delinquent	29,496	0	29,496
Succeeding year	2,978,473	0	2,978,473
Income surtax	195,191	0	195,191
Interfund	26,000	0	26,000
Accounts	0	3,877	3,877
Accrued ISCAP interest(Note 5)	108	0	108
Due from other governments	244,007	0	244,007
Inventories	0	19,194	19,194
Capital assets, net of accumulated depreciation(Note 6)	4,724,861	29,445	4,754,306
<b>TOTAL ASSETS</b>	<b>9,616,684</b>	<b>85,422</b>	<b>9,702,106</b>
<b>LIABILITIES</b>			
Interfund payable	0	26,000	26,000
Accounts payable	17,684	216	17,900
Interest payable	4,970	0	4,970
ISCAP warrants payable(Note 5)	362,000	0	362,000
ISCAP accrued interest payable(Note 5)	92	0	92
ISCAP premiums payable	2,686	0	2,686
Deferred revenue:			
Succeeding year property tax	2,978,473	0	2,978,473
Other	0	4,930	4,930
Long-term liabilities(Note 7):			
Portion due within one year:			
General obligation bonds	180,000	0	180,000
Revenue bonds	25,000	0	25,000
Early retirement	60,361	0	60,361
Portion due after one year:			
General obligation bonds	795,000	0	795,000
Revenue bonds	100,000	0	100,000
Early retirement	264,996	0	264,996
<b>TOTAL LIABILITIES</b>	<b>4,791,262</b>	<b>31,146</b>	<b>4,822,408</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	3,624,861	29,445	3,654,306
Restricted for:			
Teacher compensation	4,923	0	4,923
Early intervention	89,896	0	89,896
Talented and gifted	31,196	0	31,196
Physical plant and equipment levy	194,737	0	194,737
Capital projects	550,115	0	550,115
Debt service	119,732	0	119,732
Other special revenue purposes	132,041	0	132,041
Unrestricted	77,921	24,831	102,752
<b>TOTAL NET ASSETS</b>	<b>\$ 4,825,422</b>	<b>54,276</b>	<b>4,879,698</b>

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2007

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Operating Grants, Capital Grants, Charges Contributions Contributions for and Restricted and Restricted		Interest	Govern- mental Activities	Business- Type Activities	Total
		Services	Interest				
<b>Functions/Programs</b>							
<b>Governmental activities:</b>							
Instruction:							
Regular instruction	\$ 3,740,162	296,950	688,434	0	(2,754,778)	0	(2,754,778)
Special instruction	1,460,290	39,650	47,873	0	(1,372,767)	0	(1,372,767)
Other instruction	789,285	295,868	0	0	(493,417)	0	(493,417)
	<u>5,989,737</u>	<u>632,468</u>	<u>736,307</u>	<u>0</u>	<u>(4,620,962)</u>	<u>0</u>	<u>(4,620,962)</u>
Support services:							
Student services	274,467	0	0	0	(274,467)	0	(274,467)
Instructional staff services	302,831	0	0	0	(302,831)	0	(302,831)
Administration services	804,882	0	0	0	(804,882)	0	(804,882)
Operation and maintenance							
of plant services	648,573	0	0	0	(648,573)	0	(648,573)
Transportation services	495,599	0	4,962	0	(490,637)	0	(490,637)
	<u>2,526,352</u>	<u>0</u>	<u>4,962</u>	<u>0</u>	<u>(2,521,390)</u>	<u>0</u>	<u>(2,521,390)</u>
Other expenditures:							
Facilities acquisitions	0	0	0	24,967	24,967	0	24,967
Long-term debt interest	55,870	0	0	0	(55,870)	0	(55,870)
AEA flowthrough	305,537	0	305,537	0	0	0	0
Depreciation(unallocated)*	155,428	0	0	0	(155,428)	0	(155,428)
	<u>516,835</u>	<u>0</u>	<u>305,537</u>	<u>24,967</u>	<u>(186,331)</u>	<u>0</u>	<u>(186,331)</u>
Total governmental activities	9,032,924	632,468	1,046,806	24,967	(7,328,683)	0	(7,328,683)
<b>Business-Type activities:</b>							
Non-instructional programs:							
Nutrition services	489,047	377,309	143,057	0	0	31,319	31,319
Total business-type activities	<u>489,047</u>	<u>377,309</u>	<u>143,057</u>	<u>0</u>	<u>0</u>	<u>31,319</u>	<u>31,319</u>
Total	<u>\$ 9,521,971</u>	<u>1,009,777</u>	<u>1,189,863</u>	<u>24,967</u>	<u>(7,328,683)</u>	<u>31,319</u>	<u>(7,297,364)</u>
<b>General Revenues &amp; Transfers:</b>							
Property tax levied for:							
General purposes					\$ 2,712,684	0	2,712,684
Debt services					228,383	0	228,383
Capital outlay					188,918	0	188,918
Local option sales and service tax					574,243	0	574,243
Unrestricted state grants					3,988,716	0	3,988,716
Unrestricted investment earnings					13,556	309	13,865
Other					30,221	0	30,221
Transfers					(3,738)	0	(3,738)
Total general revenues					<u>7,732,983</u>	<u>309</u>	<u>7,733,292</u>
Changes in net assets					404,300	31,628	435,928
Net assets beginning of year					4,421,122	22,648	4,443,770
Net assets end of year					<u>\$ 4,825,422</u>	<u>54,276</u>	<u>4,879,698</u>

\* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2007

	Physical					Total
	General	Manage- ment Levy	Plant & Equipment Levy	Capital Projects	Other Nonmajor Funds	
<b>ASSETS</b>						
Cash and pooled investments:						
ISCAP(Note 5)	\$ 361,428	0	0	0	0	361,428
Other	21,069	226,889	192,619	370,542	246,001	1,057,120
Receivables:						
Property tax						
Delinquent	23,463	1,527	2,118	0	2,388	29,496
Succeeding year	2,393,456	160,000	201,017	0	224,000	2,978,473
Income surtax	195,191	0	0	0	0	195,191
Interfund	26,000	0	0	0	0	26,000
Accrued ISCAP interest(Note 5)	108	0	0	0	0	108
Due from other governments	64,434	0	0	179,573	0	244,007
<b>TOTAL ASSETS</b>	<b>\$ 3,085,149</b>	<b>388,416</b>	<b>395,754</b>	<b>550,115</b>	<b>472,389</b>	<b>4,891,823</b>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts payable	\$ 17,684	0	0	0	0	17,684
ISCAP warrants payable(Note 5)	362,000	0	0	0	0	362,000
ISCAP accrued interest payable(Note 5)	92	0	0	0	0	92
ISCAP premiums payable	2,686	0	0	0	0	2,686
Deferred revenue:						
Succeeding year property tax	2,393,456	160,000	201,017	0	224,000	2,978,473
Income surtax	195,191	0	0	0	0	195,191
<b>Total liabilities</b>	<b>2,971,109</b>	<b>160,000</b>	<b>201,017</b>	<b>0</b>	<b>224,000</b>	<b>3,556,126</b>
Fund balances:						
Reserved for:						
Teacher compensation	4,923	0	0	0	0	4,923
Early intervention	89,896	0	0	0	0	89,896
Talented and gifted	31,196	0	0	0	0	31,196
Debt service	0	0	0	0	119,732	119,732
Unreserved:						
Undesignated	(11,975)	228,416	194,737	550,115	128,657	1,089,950
<b>Total fund balances</b>	<b>114,040</b>	<b>228,416</b>	<b>194,737</b>	<b>550,115</b>	<b>248,389</b>	<b>1,335,697</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 3,085,149</b>	<b>388,416</b>	<b>395,754</b>	<b>550,115</b>	<b>472,389</b>	<b>4,891,823</b>

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 JUNE 30, 2007

Total fund balances of governmental funds (page 16)	\$	1,335,697
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.		4,724,861
Accrued interest payable in long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(4,970)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		195,191
Long-term liabilities, including bonds payable, and early retirement are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		(1,425,357)
		<hr/>
<b>Net assets of governmental activites (page 14)</b>	<b>\$</b>	<b><u><u>4,825,422</u></u></b>

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2007

	General	Manage- ment Levy	Physical Plant & Equipment Levy	Capital Projects	Other Nonmajor Funds	Total
<b>REVENUES:</b>						
Local sources:						
Local tax	\$ 2,533,262	151,231	188,918	0	228,383	3,101,794
LOSST	0	0	0	574,243	0	574,243
Tuition	336,600	0	0	0	0	336,600
Other	79,718	12,679	11,672	25,657	260,114	389,840
Intermediate sources	10,634	0	0	0	0	10,634
State sources	4,759,828	84	115	0	130	4,760,157
Federal sources	239,503	0	0	0	0	239,503
Total revenues	7,959,545	163,994	200,705	599,900	488,627	9,412,771
<b>EXPENDITURES:</b>						
Current:						
Instruction:						
Regular instruction	3,720,667	62,129	0	0	0	3,782,796
Special instruction	1,213,005	0	0	0	0	1,213,005
Other instruction	682,273	0	0	0	278,847	961,120
	5,615,945	62,129	0	0	278,847	5,956,921
Support services:						
Student services	237,645	822	0	0	0	238,467
Instructional staff services	308,831	0	0	0	0	308,831
Administration services	801,172	2,359	0	0	0	803,531
Operation and maintenance of plant services	622,909	60,263	0	0	0	683,172
Transportation services	413,552	25,076	58,250	0	0	496,878
	2,384,109	88,520	58,250	0	0	2,530,879
Non-instructional:						
Food service operations	0	3,246	0	0	0	3,246
Other expenditures:						
Facilities acquisitions	0	0	57,988	871,125	0	929,113
Long-term debt:						
Principal	0	0	0	0	259,600	259,600
Interest and fiscal charges	0	0	0	0	57,099	57,099
AEA flowthrough	305,537	0	0	0	0	305,537
	305,537	0	57,988	871,125	316,699	1,551,349
Total expenditures	8,305,591	153,895	116,238	871,125	595,546	10,042,395
Excess(deficiency) of revenues over(under) expenditures	(346,046)	10,099	84,467	(271,225)	(106,919)	(629,624)
Other financing sources(uses):						
Transfers in	0	0	0	0	89,811	89,811
Transfers out	0	0	(58,827)	(30,984)	(3,738)	(93,549)
Total other financing sources(uses)	0	0	(58,827)	(30,984)	86,073	(3,738)
Net change in fund balances	(346,046)	10,099	25,640	(302,209)	(20,846)	(633,362)
Fund balance beginning of year	460,086	218,317	169,097	852,324	269,235	1,969,059
Fund balance end of year	\$ 114,040	228,416	194,737	550,115	248,389	1,335,697

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 YEAR ENDED JUNE 30, 2007

Net change in fund balances - total governmental funds (page 18) \$ (633,362)

*Amounts reported for governmental activities in the  
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the current year, as follows:

Capital expenditures	\$ 1,138,215	
Depreciation expense	<u>(243,422)</u>	894,793

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments are as follows: 259,600

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 1,229

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund.

Early retirement (146,151)

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 28,191

Changes in net assets of governmental activities (page 15) \$ 404,300

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF NET ASSETS  
 PROPRIETARY FUND  
 JUNE 30, 2007

	<u>School Nutrition</u>
ASSETS	
Cash and cash equivalents	\$ 32,906
Accounts receivable	3,877
Inventories	19,194
Capital assets, net of accumulated depreciation(Note 6)	29,445
TOTAL ASSETS	<u>85,422</u>
LIABILITIES	
Interfund payable	26,000
Accounts payable	216
Unearned revenues	4,930
TOTAL LIABILITIES	<u>31,146</u>
NET ASSETS	
Investment in capital assets	29,445
Unrestricted	24,831
TOTAL NET ASSETS	<u>\$ 54,276</u>

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2007

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 377,309
OPERATING EXPENSES:	
Food service operations:	
Salaries	147,021
Benefits	62,985
Services	55,507
Supplies	217,079
Depreciation	6,455
TOTAL OPERATING EXPENSES	489,047
OPERATING LOSS	(111,738)
NON-OPERATING REVENUES:	
Interest	309
State sources	5,570
Federal sources	137,487
TOTAL NON-OPERATING REVENUES	143,366
Change in net assets	31,628
Net assets at beginning of year	22,648
Net assets end of year	\$ 54,276

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2007

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 372,342
Cash payments to employees for services	(210,006)
Cash payments to suppliers for goods or services	(252,672)
Net cash used in operating activities	(90,336)
Cash flows from non-capital financing activities:	
State grants received	5,570
Federal grants received	115,360
Net cash provided by non-capital financing activities	120,930
Cash flows from investing activities:	
Interest on investments	309
Net increase in cash and cash equivalents	30,903
Cash and cash equivalents at beginning of year	2,003
Cash and cash equivalents at end of year	\$ 32,906
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (111,738)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	22,127
Depreciation	6,455
Increase in inventories	(2,429)
Increase in accounts receivable	(3,877)
Increase in accounts payable	216
Decrease in unearned revenue	(1,090)
Net cash used in operating activities	\$ (90,336)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ 32,906

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2007, the District received Federal commodities valued at \$22,127.

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF FIDUCIARY NET ASSETS  
 FIDUCIARY FUND  
 JUNE 30, 2007

	<u>Private Purpose</u>
	<u>Trust</u>
	<u>Scholarship</u>
ASSETS	
Cash and pooled investments	\$ 55,984
TOTAL ASSETS	<u>\$ 55,984</u>
LIABILITIES AND FUND BALANCE	
Liabilities:	<u>\$ 0</u>
Fund balances:	
Reserved for scholarships	52,600
Unreserved	<u>3,384</u>
TOTAL LIABILITES AND FUND BALANCE	<u>\$ 55,984</u>

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
YEAR ENDED JUNE 30, 2007

	Private Purpose Trust
	Scholarship
Additions:	
Local sources:	
Interest income	\$ 1,823
Total additions	1,823
Deductions:	
Instruction:	
Scholarships awarded	2,150
Support services:	
Administration services	27
Total deductions	2,177
Change in net assets before other financing sources	(354)
Other financing sources:	
Transfer in	3,738
Change in net assets	3,384
Net assets beginning of year	52,600
Net assets end of year	\$ 55,984

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

(1) **Summary of Significant Accounting Policies**

The PCM Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Prairie City, and Monroe, Iowa, and the predominate agricultural territory in Jasper, Marion and Polk Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, PCM Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The PCM Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Jasper, Marion and Polk County Assessors' Conference Board.

B. Basis of Presentation

Government-wide financial statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net asset* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Management Fund is utilized to account for the District's early retirement benefits, workmen's comprehensive claims, and payments for the District's property insurance.

The Physical Plant and Equipment Levy Fund is utilized to account for major equipment purchases and capital improvements.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary fund.

The District's proprietary funds is the School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

The District also reports a fiduciary fund which focuses on net assets and changes in net assets. The District's fiduciary fund is as follows:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

#### C. Measurement Focus and Basis of Accounting

The Government-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the "economic resources measurement focus" and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following

fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1,500
Buildings	1,500
Improvements other than buildings	1,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,500

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Improvements other than buildings	20 years
Machinery and equipment	5-12 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial

statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenues - unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the Government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

#### E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, expenditures in the instruction and support services functional area exceeded the amounts budgeted.

#### (2) **Cash and Pooled Investments**

The District's deposits at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit of other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2007, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified Portfolio	\$ 9,767

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. Certificates of deposit are classified as Category 1, which means the investments are insured and held by the District in the District's name. Certificates of deposit are stated at fair value.

At June 30, 2007, the District had investments in Certificates of Deposit maturing over one year as follows:

	Fair Value
Certificates of Deposit	\$ 52,600

**(3) Due From and Due to Other Funds**

The detail of interfund receivables and payables for the year ended June 30, 2007 is as follows:

Receivable Fund	Payable Fund	Amount
General	Nutrition	\$ 26,000

**(4) Interfund Transfers**

The detail of transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
Debt Service	PEEL	\$ 58,827
Debt Service	Local Option Sales and Service Tax	30,984
Non-expendable Trust	Expendable Trust	3,738
Total		\$ 93,549

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(5) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash

balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2007 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2007-08A	6/27/2007	6/27/2008	\$ 361,428	108	362,000	92

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25<sup>th</sup> of each month immediately following the final date the warrant proceeds may be used in an amount equal to 25% of the warrant amount. There was no advance ISCAP activity in the General Fund for the year ended June 30, 2007.

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2007-08A	4.500%	5.455%

(6) Capital Assets

Capital assets activity for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 246,859	0	0	246,859
Less accumulated depreciation	210,959	6,455	0	217,414
Business-type activities capital assets, net	\$ 35,900	(6,455)	0	29,445

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 156,462	0	0	156,462
Total capital assets not being depreciated	156,462	0	0	156,462
Capital assets being depreciated:				
Buildings	6,255,973	1,067,707	18,416	7,305,264
Machinery and equipment	1,207,012	91,188	2,830	1,295,370
Total capital assets being depreciated	7,462,985	1,158,895	21,246	8,600,634
Less accumulated depreciation for:				
Buildings	2,809,168	155,428	4,415	2,960,181
Machinery and equipment	980,211	92,409	566	1,072,054
Total accumulated depreciation	3,789,379	247,837	4,981	4,032,235
Total capital assets being depreciated, net	3,673,606	911,058	16,265	4,568,399
Governmental activities capital assets, net	\$ 3,830,068	911,058	16,265	4,724,861

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 27,773
Support services:	
Operation and maintenance of plant services	3,250
Transportation	56,971
	87,994
Unallocated depreciation	155,428
Total governmental activities depreciation expense	\$ 243,422
Business-type activities:	
Food services	\$ 6,455

#### (7) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation	\$ 1,150,000	0	175,000	975,000	180,000
Revenue bonds	150,000	0	25,000	125,000	25,000
Real estate contract	59,600	0	59,600	0	0
Early retirement	179,206	180,000	33,849	325,357	60,361
Total	\$ 1,538,806	180,000	293,449	1,425,357	265,361

#### Early Retirement

The District offers a voluntary early retirement plan to its full-time employees. Employees must be between the ages of fifty-five and sixty-four and must have completed fifteen years of continuous service to the District. Employees must complete

an application which is subject to approval by the Board of Education. Early retirement incentives are equal to 75% of the employees yearly salary. During the year ended June 30, 2007, the District paid early retirement benefits of \$33,849.

Real Estate Contract Payable

The District no longer has a real estate contract payable because the District made the final two payments, including fiscal 2008's payment, during the year ended June 30, 2007.

General Obligation

Details of the District's June 30, 2007 General Obligation bonds indebtedness is as follows:

Year Ending June 30,	Interest Rate	Bond issue dated August 1, 1998		
		Principal	Interest	Total
2008	4.45 %	\$ 180,000	43,700	223,700
2009	4.45	185,000	35,690	220,690
2010	4.45	195,000	27,458	222,458
2011	4.50	205,000	18,780	223,780
2012	4.55	210,000	9,555	219,555
Total		<u>\$ 975,000</u>	<u>135,183</u>	<u>1,110,183</u>

Revenue Bonds Payable

During the year ended June 30, 2005, the District entered into an agreement with Metro Waste Authority providing for \$175,000 for building the nature and education center that will be located on the premises of the District. The note is scheduled to be repaid April 1, 2012.

Details of the District's June 30, 2007 Revenue Bond indebtedness is as follows:

Year Ending June 30,	Interest Rate	Bond issue dated April 13, 2005		
		Principal	Interest	Total
2008	4.25 %	\$ 25,000	4,914	29,914
2009	4.25	25,000	3,852	28,852
2010	4.25	25,000	2,789	27,789
2011	4.25	25,000	1,727	26,727
2012	4.25	25,000	664	25,664
Total		<u>\$ 125,000</u>	<u>13,945</u>	<u>138,945</u>

**(8) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$310,177, \$303,533, and \$286,420 respectively, equal to the required contributions for each year.

**(9) Risk Management**

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(10) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$305,537 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(11) Budget Overexpenditure**

Per the Code of Iowa, expenditures may not legally exceed budgeted expenditures at the functional area. During the year ended June 30, 2007, expenditures in the instruction and support services functional areas exceeded the amounts budgeted.

**(12) Deficit Account Balance**

As of June 30, 2007, the General Fund had a deficit unrestricted fund balance of \$11,975.

REQUIRED SUPPLEMENTARY INFORMATION

PCM COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND  
 CHANGES IN BALANCES -  
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
 AND PROPRIETARY FUNDS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2007

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to Actual Variance
	Fund Types	Fund Type		Original	Final	
	Actual	Actual				
Revenues:						
Local sources	\$ 4,402,477	377,618	4,780,095	4,535,829	4,535,829	244,266
Intermediate sources	10,634	0	10,634	0	0	10,634
State sources	4,760,157	5,570	4,765,727	4,725,858	4,725,858	39,869
Federal sources	239,503	137,487	376,990	419,000	419,000	(42,010)
Total revenues	9,412,771	520,675	9,933,446	9,680,687	9,680,687	252,759
Expenditures:						
Instruction	5,956,921	0	5,956,921	5,937,000	5,937,000	(19,921)
Support services	2,530,879	0	2,530,879	2,463,000	2,463,000	(67,879)
Non-instructional programs	3,246	489,047	492,293	502,504	502,504	10,211
Other expenditures	1,551,349	0	1,551,349	2,051,552	2,051,552	500,203
Total expenditures	10,042,395	489,047	10,531,442	10,954,056	10,954,056	422,614
Excess(deficiency) of revenues over(under) expenditures	(629,624)	31,628	(597,996)	(1,273,369)	(1,273,369)	675,373
Other financing sources, net	(3,738)	0	(3,738)	0	0	(3,738)
Excess(deficiency) of revenues and other financing sources over(under) expenditures	(633,362)	31,628	(601,734)	(1,273,369)	(1,273,369)	671,635
Balance beginning of year	1,969,059	22,648	1,991,707	2,045,031	2,045,031	(53,324)
Balance end of year	\$ 1,335,697	54,276	1,389,973	771,662	771,662	618,311

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

PCM COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2007, expenditures in the instruction and support services function exceeded budgeted amounts.

OTHER SUPPLEMENTARY INFORMATION

PCM COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2007

	Special Revenue		
	Student Activity	Debt Service	Total Nonmajor Governmental Funds
ASSETS			
Cash and pooled investments	\$ 128,657	117,344	246,001
Receivables:			
Property tax:			
Current year delinquent	0	2,388	2,388
Succeeding year	0	224,000	224,000
<b>TOTAL ASSETS</b>	<b>\$ 128,657</b>	<b>343,732</b>	<b>472,389</b>
LIABILITIES AND FUND BALANCE			
Liabilities:			
Deferred revenue:			
Succeeding year property tax		0 224,000	224,000
		0 224,000	224,000
Fund balances:			
Reserved:			
Debt service		0 119,732	119,732
Unreserved:			
Undesignated	128,657	0	128,657
Total fund balances	128,657	119,732	248,389
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 128,657</b>	<b>343,732</b>	<b>472,389</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

PCM COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2007

	Special Revenue			Debt Service	Total Other Nonmajor Governmental Funds
	Student Activity	Expendable Trust	Total Special Revenue Funds		
REVENUES:					
Local sources:					
Local tax	\$ 0	0	0	228,383	228,383
Other	258,709	0	258,709	1,405	260,114
State sources	0	0	0	130	130
TOTAL REVENUES	258,709	0	258,709	229,918	488,627
EXPENDITURES:					
Current:					
Instruction:					
Other instruction	278,847	0	278,847	0	278,847
Support services:					
Other expenditures:					
Long-term debt:					
Principal	0	0	0	259,600	259,600
Interest	0	0	0	57,099	57,099
TOTAL EXPENDITURES	278,847	0	278,847	316,699	595,546
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(20,138)	0	(20,138)	(86,781)	(106,919)
TOTAL OTHER FINANCING SOURCES					
Transfer in	0	0	0	89,811	89,811
Transfer out	0	(3,738)	(3,738)	0	(3,738)
TOTAL OTHER FINANCING SOURCES (USES)	0	(3,738)	(3,738)	89,811	86,073
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	(20,138)	(3,738)	(23,876)	3,030	(20,846)
FUND BALANCE BEGINNING OF YEAR	148,795	3,738	152,533	116,702	269,235
FUND BALANCE END OF YEAR	\$ 128,657	0	128,657	119,732	248,389

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

PCM COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Art club	\$ 927	0	0	927
Athletics	36,774	92,219	127,805	1,188
Band	4,506	7,800	7,954	4,352
Cheerleaders	1,659	3,211	2,712	2,158
Class of 2004	115	0	115	0
Class of 2005	6	0	6	0
Class of 2006	5	0	5	0
Class of 2007	1,892	7,240	8,782	350
Class of 2008	0	1,766	0	1,766
Class of 2009	1,735	3,014	2,134	2,615
Class of 2010	2,902	1,627	3,604	925
Class of 2011	2,601	642	1,171	2,072
Class of 2012	2,902	32	380	2,554
Class of 2013	2,930	34	508	2,456
Conference activities	38	0	38	0
Drama	857	650	1,343	164
Mustang club	19,747	31,126	27,922	22,951
FFA	4,742	31,895	28,241	8,396
Foods/clothing club	475	165	180	460
Football club	2,063	1,811	3,874	0
Interest	1,335	517	1,224	628
Jazz creation	2,129	20,326	10,386	12,069
Journalism	244	138	101	281
Korver Memorial	122	0	122	0
Library club	20	0	20	0
National honor society	635	570	629	576
Pop fund	4,051	2,322	585	5,788
Science club	417	0	0	417
Spanish club	993	2,010	2,055	948
Speech club	437	3,950	2,968	1,419
Spirit club	6,917	2,784	2,339	7,362
Student government	4,808	3,231	5,212	2,827
Thespians	351	803	798	356
Vocal	4,215	7,890	7,722	4,383
Photography club	0	67	0	67
Student assignment books	0	187	0	187
Student council	7,415	18,260	7,975	17,700
Accounting club	8,117	0	8,117	0
Playground	3,244	342	0	3,586
Reading club	5,224	1,878	1,853	5,249
Spelling bee	424	0	0	424
Just say no club	1,559	2,327	2,162	1,724
Preschool	303	0	0	303
Yearbook	8,959	7,875	7,805	9,029
Total	<u>\$ 148,795</u>	<u>258,709</u>	<u>278,847</u>	<u>128,657</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

PCM COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2007	2006	2005	2004
Revenues:				
Local sources:				
Local tax	\$ 3,676,037	3,478,621	3,393,896	3,195,617
Tuition	336,600	317,811	293,058	264,258
Other	389,840	470,271	401,957	525,001
Intermediate sources	10,634	0	0	0
State sources	4,760,157	4,455,610	4,331,308	4,025,365
Federal sources	239,503	195,604	296,385	179,153
Total	<u>\$ 9,412,771</u>	<u>8,917,917</u>	<u>8,716,604</u>	<u>8,189,394</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 3,782,796	3,711,392	3,588,938	3,336,553
Special instruction	1,213,005	1,377,275	1,309,659	1,198,740
Other instruction	961,120	752,158	782,833	916,466
Support services:				
Student services	238,467	214,986	215,362	197,528
Instructional staff services	308,831	331,870	245,061	243,778
Administration services	803,531	768,393	647,847	625,238
Operation and maintenance of plant services	683,172	692,804	646,719	673,256
Transportation services	496,878	423,146	445,373	412,863
Central services	0	0	0	5,798
Non-instructional:				
Food service operations	3,246	3,320	2,209	1,701
Other expenditures:				
Facilities acquisitions	929,113	422,765	168,576	33,113
Long Term Debt:				
Principal	259,600	282,400	243,000	275,000
Interest	57,099	73,623	78,128	90,983
AEA flow-through	305,537	281,251	275,226	268,445
Total	<u>\$ 10,042,395</u>	<u>9,335,383</u>	<u>8,648,931</u>	<u>8,279,462</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
(a professional corporation)  
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Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements Performed in  
Accordance with Government Auditing Standards

To the Board of Education of the  
PCM Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of PCM Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated January 22, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered PCM Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of PCM Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of PCM Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects PCM Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of PCM Community School District's financial statements that is more than inconsequential will not be prevented or detected by PCM Community School District's internal control. We consider the deficiencies in internal control described in Part I of the Findings Related to the General Purpose Financial Statements to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by PCM Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-07 is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether PCM Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

PCM Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit PCM Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of PCM Community School District and other parties to whom PCM Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of PCM Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
NOLTE, CORNMAN & JOHNSON, P.C.

January 22, 2008

PCM COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2007

Part I: Findings Related to the General Purpose Financial Statements:

SIGNIFICANT DEFICIENCIES:

I-A-07 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

I-B-07 Student Activity Fund - During our audit concerns arose about certain expenditures paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The Student Activity Fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in Department of Education administrative rules (298A.8). Fundraisers and donations made to the school should be recorded in the fund in which they could be expended.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as part of the education program for the students established under Iowa Administrative Code 281-12.6(1).

More specifically, transactions in the playground account are more appropriately accounted for in the PPEL Fund or the General Fund. This account does not appear to be cocurricular or extra curricular in nature so it does not meet the criteria of the Student Activity Fund. This account should be transferred to the PPEL Fund or the General Fund.

Donations made to a District should be placed in the most appropriate place based upon the donor request. Target/Box Tops donations are intended for instructional supplies. The most logical place to record the revenue and subsequent purchase of instructional supplies would be the General Fund. Future donations from Target/Box Tops should be recorded in the General Fund.

If the proceeds in the pop fund accounts are controlled by the faculty and administration for break room beverages, these accounts should not be contained within the Activity Fund. The accounts used by the teachers may be more appropriate in the General Fund.

Response - We will review and implement changes.

Conclusion - Response accepted.

I-C-07 Transfers - We noted during our audit that the District has interfund payables/receivables which were on the balance sheets in the prior year and still on the current year balance sheets.

Recommendation - The District should repay the interfund loans. Money borrowed on a short term basis from a fund should be repaid before the year end.

Response - We will review and make necessary changes.

Conclusion - Response accepted.

PCM COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2007

Part II: Other Findings Related to Required Statutory Reporting

II-A-07 Certified Budget - District expenditures for the year ended June 30, 2007, exceeded the amount budgeted in the instruction and support services functions.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - We will monitor the budget and amend if necessary.

Conclusion - Response accepted.

II-B-07 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-07 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

II-D-07 Business Transactions - No business transactions between the District and District officials were noted.

II-E-07 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-07 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

II-G-07 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of resident students reported on Line 1 was understated by one student.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response - We will contact the Department of Management and resolve this matter.

Conclusion - Response accepted.

II-H-07 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

II-I-07 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

II-J-07 Photo Image Checks - We noted during our audit that the District received their checks from the bank as photo images showing only the front of the checks. Per Chapter 544D.114 of the Code of Iowa, the District is required to have retained both the front and back of check images.

Recommendation - The District should request that photo images of checks contain both the front and the back of the checks according to 544D.114 of the Code of Iowa.

Response - We will comply.

Conclusion - Response accepted.

II-K-07 Financial Condition - At June 30, 2007, the District's General Fund had a negative unrestricted fund balance of \$11,975.

Recommendation - The District should continue to monitor this fund and investigate alternatives to eliminate the deficit.

Response - We will monitor this fund and find a way to eliminate the deficit.

Conclusion - Response accepted.